MEDPAC Medicare Payment Advisory Commission

MEETING BRIEF

April 12-13, 2001

Improving payments for inpatient hospital care in rural areas

ISSUE: How should Medicare's payment system be revised to ensure an appropriate level and distribution of inpatient payments for rural hospitals? Rural hospitals have substantially lower Medicare inpatient margins than urban hospitals (3.4 percent compared with 13.2 percent in 1999), and the gap has been widening. The same general pattern applies to the overall Medicare margin. Further, this imbalance has occurred despite Medicare subsidies for rural hospitals that are almost as high as those urban hospitals enjoy. Partly in response to this situation, the Congress has asked MedPAC to review the adequacy and appropriateness of Medicare's special payment provisions for rural hospitals, as well as the appropriateness of its payment limits for rural psychiatric facilities.

KEY POINTS: Four general problems in the Medicare payment system may have played a key role in producing the gap between rural and urban hospitals' financial performance under Medicare:

- limitations in input price measurement (Medicare's wage index system);
- failure to systematically account for small scale of operation;
- higher length of stay, possibly resulting from limited access to post-acute care services; and
- unequal disproportionate share payments.

We would like to refine the payment system to address these problems, so as to avoid increased exposure to cost-based payment. In considering refinements, however, we have two broad options:

- rely on policies that provide relief for groups of rural hospitals without targeting payments to specific cost-influencing factors (these include raising the rural base payment rate as well as the existing rural referral, sole community, Medicare-dependent and critical access programs), or
- develop payment adjustments that attempt to target payments more accurately at the hospital-specific level.

We will focus on the latter strategy, which will sometimes redistribute payments across all hospitals in a way that, on average, helps rural facilities. But we will also address whether raising the rural base payment rate might be needed in addition to the targeted policy adjustments that are appropriate and feasible at this time, as well as whether and under what conditions Congress should replace the existing programs and whether changes in these programs might be needed now.

ACTION: For each issue area (the wage index, for example), we will present new material since the last meeting and consider options for Commission recommendations. New material will feature simulations of a number of key options for modifying the inpatient PPS and analyses related to how well the limits on inpatient psychiatric payments work for rural facilities. To the extent possible, the Commission should finalize its recommendations for the June Report at this meeting.

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